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AMERICAN SHIPBUILDING ASSOCIATION

2000-DO18-2

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Ms. Sandra G. Haberlin
Defense Acquisition Regulations Council
OUSD (A&TL) DP (DAR)
IMD 3C132
3062 Defense Pentagon
Washington DC 20301-3062

Subject: Changes to Profit Policy (DFARS Case 2000-DO18)

Dear DAR Council:

The shipbuilding industrial sector of the defense industrial base strongly urges the DAR Council either to totally restore facilities and equipment as factors to be used in its proposed regulation on profit policy, or to create an alternative structured approach that recognizes the uniqueness of shipbuilding and the extraordinary difference in the level of capital investment required to build a ship than for any other major defense acquisition.

The American Shipbuilding Association reiterates the recommendation that it made on September 22, 2000 in response to the first version of the proposed changes to the profit policy regulation - - "conduct an independent analysis of the differing impacts these proposed changes would have on each sector of the defense industrial base." In this regard, such a study should also assess the appropriateness of actually incentivizing investments in industry sectors that are facility and equipment intensive, such as shipbuilding, especially when such investments improve productivity and reduce future costs to the Government.

Shipbuilding requires a greater level of capital investment in facilities and equipment for every unit produced than for any other major defense acquisition. That is why the U. S. shipbuilding industry invested billions of dollars into modernized facilities and equipment in the 1980s and 1990s, and continues to invest in state-of-the-art facilities and equipment in order to further improve productivity and reduce future costs of Navy ships. Much of this investment has been made in good faith by the shipbuilders at the urging of the Navy, even in the face of anemic procurements, and those investments continue to directly benefit the Navy. In short, the proposed elimination of facilities and 50% reduction in allowance for equipment in the weighted guidelines are shortsighted, and are inconsistent with the industry's cost reduction initiatives implemented during the 1980s and 1990s.

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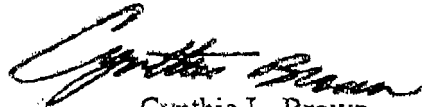
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Also alarming is the fact that an indiscriminate elimination of facilities and reduction in the allowance for equipment ignore the issues and recommendations made by the Defense Science Board as they relate to the need to improve cash flow and profitability for defense contractors. The proposed changes to the weighted guidelines simply ignore the realities associated with shipbuilding, and are the antithesis to the recommendations made by the Defense Science Board.

Even more perplexing is the fact that the proposed treatment of facilities and equipment undermines the heart and soul of one of Under Secretary Aldridge's five specific goals - - "to improve the health of the defense industrial base." Simply stated, the proposed treatment of facilities and equipment will **weaken** rather than improve the health of the defense shipbuilding industrial base. That is why the American Shipbuilding Association strongly urges the DAR Council either to restore facilities and equipment as weighted guideline factors, or create an alternative structured approach that recognizes the uniqueness of shipbuilding and the extraordinary difference in the level of capital investment required to build a ship than for any other major defense acquisition.

S i n c e r e l y ,



Cynthia L. Brown
President